

IN THE CHANCERY COURT FOR LEWIS COUNTY
AT HOHENWALD, TENNESSEE

IN RE:

SENTINEL TRUST COMPANY

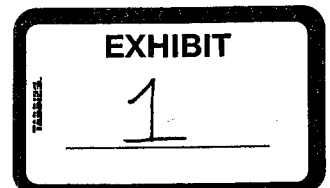
No. 4781

AFFIDAVIT OF WADE McCULLOUGH

STATE OF TENNESSEE)
COUNTY OF DAVIDSON)

I, WADE McCULLOUGH, having first been duly sworn, state to the Court as follows:

1. I am an Examiner/Trust Specialist with the Tennessee Department of Financial Institutions and have held this position since May 1, 1999.
2. In June, 2003, the Department began an examination of Sentinel Trust Company under the direction of Vivian Lamb, Program Administrator-Trusts for the Department. As an Examiner/Trust Specialist, I assisted Ms. Lamb with this examination.
3. On May 18, 2004, the Commissioner of the Tennessee Department of Financial Institutions took possession of Sentinel Trust Company and subsequently appointed Receivership Management, Inc. as Receiver for Sentinel. Since that time, I have been assisting the Receiver in reviewing Sentinel's accounts and records and analyzing those records to determine Sentinel's fiduciary and corporate financial position as of May 18, 2004. I have also been assisting the Receiver in analyzing and determining the funding requirements requirements of all bond issues



to which Sentinel Trust Company serves as a fiduciary, including but not limited to, Trustee, Registration Agent, Escrow Agent and Paying Agent.

4. Through examination and analysis of Sentinel's accounts and records, I have verified that Sentinel had a fiduciary cash shortfall of at least \$5,789,011 as of December 31, 2003. This fiduciary cash shortfall subsequently increased to an amount ranging from \$7,612,218 to \$8,430,722, as of May, 18, 2004, the date of possession. This information is set forth in the June 15, 2004 Report to the Commissioner, a copy of which is attached hereto as Exhibit A and incorporated herein by this reference.

5. I have further determined that Sentinel is insolvent in an amount of at least \$6,225,000 and does not have sufficient liquid assets to pay off its creditors and the bondholders. *See Exhibit A.*

6. Sentinel Trust serves as the registrar and paying and /or escrow agent on approximately 99 municipal bond issues. Sentinel's records show that as of May 18, 2004, these bond issues had approximately \$35,588,900 in fiduciary assets invested in U.S. Treasury bills, bonds, notes and U.S. SLGs (State, Local Government Series/Bureau of Public Debt). Ten of these bond issues have interest and/or principal payments due July 1, 2004. With respect to all but one of these issues, the Commissioner has determined that the entirety of the funding necessary for the July 1 payments is still due from the issuers. Assuming that these monies are timely received, then the Commissioner will be able to make the July 1 payments for nine of these municipal bond issues in full without having to use any funds from the pooled fiduciary account. *See Exhibit A.*

7. The one remaining bond issue, which is from Colquitt County, Georgia, has an interest payment of \$13,956.25 due July 1, 2004. Sentinel's records indicate — and I have verified — that this bond issue had a fiduciary asset in the nature of a U.S. Treasury Bill in the amount of \$114,885, with a maturity date of July 1, 2004.

8. The proceeds from this fiduciary investment asset are designated for the payment of the \$13,956.25 interest payment on the Colquitt County bond issue. Furthermore, the proceeds are clearly more than sufficient to make this payment and, therefore, the Commissioner will not need to use any funds from the pooled fiduciary account. *See Exhibit A.*

9. Also, there is one bond issue that has an optional redemption date of July 15, 2004. The issuer of that bond was in the process of refinancing at the time the Commissioner took possession on May 18, 2004. Refinancing was completed and the proceeds, in the amount of \$7,724,465.10, were deposited with Sentinel on June 9, 2004. Pursuant to the terms of the optional redemption provision, these funds are to be paid to the bondholders on July 15, 2004. This payment will clearly not require the Commissioner to use any of the funds from the pooled fiduciary account. *See Exhibit A.*

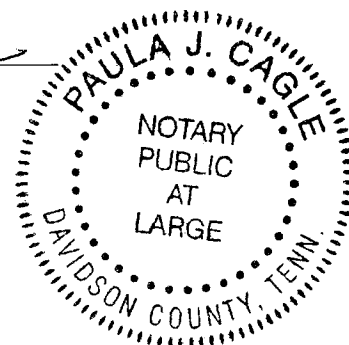
FURTHER AFFIANT SAITH NOT.

Waide McCulloch
WAIDE McCULLOUGH

Sworn to and subscribed before me this 17th day of ~~May~~ June, 2004.

My Commission Expires: _____
My Commission Expires NOV. 25, 2006

Paula J. Cagle
NOTARY PUBLIC



**SENTINEL TRUST COMPANY (In Possession/Receivership)
REPORT TO THE COMMISSIONER**

HOHENWALD

LEWIS COUNTY

TENNESSEE

Region:	<u>MIDDLE TN</u>	Certificate Number:	<u>81400</u>
Examiners:		<u>Vivian Lamb, Mike Sisk, Alan Gober,</u>	
		<u>Mark Richardson, & Wade McCullough,</u>	
Receiver:		<u>Jeanne Barnes Bryant,</u>	
		<u>Receivership Management, Incorporated</u>	
Report as of Date:		<u>May 18, 2004</u>	
Report Date		<u>June 15, 2004</u>	

EXHIBIT

A

to McCullough Affid.

SCOPE OF THE REPORT

This Report reflects the fiduciary and corporate financial positions of Sentinel Trust Company In-Possession/Receivership (Trust Company) as of May 18, 2004. The report information has been compiled by Receivership Management, Incorporated and Department of Financial Institutions' personnel. Fiduciary financial records are presented from financial statements derived from the Company's Quick Books and AccuTrust information systems. A detailed analysis of the fiduciary cash position is presented as of December 31, 2003 and May 18, 2004. The Corporate financial presentation is from the Company's Quick Books information system. An Examiner adjusted corporate balance sheet based on the company's fiduciary and corporate financial position is included in this report. A summary of the all fiduciary accounts and especially the Indenture Trusts in default are a part of this report.

SUMMARY

The company's overall financial position is unacceptable and reflects fiduciary activities have been conducted in an unsafe and unsound manner. Administration of fiduciary activities is seriously deficient in numerous major respects, with problems resulting from extremely poor fiduciary administration and a departure from sound fiduciary principles and practices. The volume and severity of fiduciary and corporate problems have resulted in a significant fiduciary cash shortage causing the company's corporate insolvency as reflected in the financial statement presentations detailed in this report.

FIDUCIARY CASH POSITION

The Trust Company's Fiduciary Cash Position as of May 18, 2004 reflects a cash shortage which ranges from \$7,612,218 in Quick Books to \$8,430,722 in the AccuTrust fiduciary accounting system. Fiduciary cash reconciliation for December 31, 2003 reflected a cash deficiency of \$5,789,011. The Trust Company's former management had reported the fiduciary cash shortage as of April 30, 2004 at \$7,250,000 reflective of the Fiduciary Accounts Receivables total of \$7,249,623 on the May 18, 2004 Company's Quick Books Fiduciary Statement. The documentation of the fiduciary receivables do not adequately support the total fiduciary receivables reflected. The verification of these receivables' accounting continues. Additional fiduciary receivables of \$1,389,702 have been identified and are included in this report. The additional receivables are included due to the absence of appropriate payment reflected in the trust company's records. Overall collection of the receivables is considered doubtful.

The fiduciary cash balance for the pre-May 18th fiduciary checking accounts as of June 15, 2004 is as follows:

SunTrust Fiduciary Balance	\$1,688,444
Union Planters Fiduciary Balance	<u>\$41,601</u>
As of June 15, 2004-Total Cash-pre May 18 th	\$1,730,045

Additional deficiencies in the Company's fiduciary cash position are bond principal and interest checks held in the Company's vault totaling \$559,873. Request (as of June 15, 2004) for payment of these checks since May 18, 2004 total \$98,000. These claims against fiduciary cash have not been paid.

FIDUCIARY FINANCIAL POSITION

The Company's Fiduciary Financial Statement as of May 18, 2004 is reflected from both the Quick Books and AccuTrust systems. The AccuTrust fiduciary balance sheet reflects \$110,830 more in total fiduciary assets than the Quick Book Fiduciary Statement. Fiduciary Investment Assets (\$36,143,404 in Quick Books) and (\$36,164,673 in AccuTrust) are still in process of verification and reconciliation. Based on fiduciary account data in these two systems a cash deficiency of \$7,976,858 is noted in Quick Books and \$7,870,849 in AccuTrust. Conservatively, the minimum fiduciary cash deficiency noted is \$7,612,218 reflected on the Quick Books Fiduciary Statement.

CORPORATE FINANCIAL POSITION

The company's Statement of Condition and adjusted Balance Sheet are presented as of May 18, 2004. The trust company's adjusted Statement of Condition reflects an **insolvent position of at least \$6,225,445** based on the minimum fiduciary cash deficiency reflected in this report. The Corporate Income Statement for May 18, 2004 reflecting a Net Loss of \$197,917 is also included. Based on the adjusted corporate financial statement, the company's financial condition is significantly unable to support fiduciary operations and is grossly unsatisfactory.

FIDUCIARY ACCOUNTS

There are a total of 155 fiduciary accounts consisting of 53 Indenture Trusts, 99 Paying Agent, and 3 personal trust accounts. The 53 Indenture Trusts (Corporate accounts) consists of total Par amount of \$302,505,000 with current total Issue amount of \$258,197,906. The 99 Paying Agent (Municipal accounts) consists of total Par amount of \$302,920,000 with current total Issue amount of \$230,850,000. Bond data continues to be compiled with a complete bond schedule anticipated in the near future.

There are three personal trust accounts (one estate and two marital trust accounts) included in the total trust accounts. Total Personal Fiduciary Assets under management are \$191,898 in Quick Books and \$191,853 in AccuTrust, verification of these personal fiduciary assets continue.

INDENTURE TRUSTS in DEFAULT

At present there are 17 Indenture Trusts (Corporate bond issues) in default. None of these bond issues are municipal issues rather they are all revenue/industrial development bond issues. Most of the defaulted bond issues are at various stages of state court receivership and/or bankruptcy proceedings. Dependent upon the particular situation, the likelihood of recovering expenses advanced by previous management from the fiduciary cash accounts to address the defaulted bond issues ranges significantly. In aggregate, the potential recovery from these defaulted issues will **not** replenish the fiduciary cash deficiency. A summary of these defaulted bonds is included in this report.

THIRD QUARTER 2004 BOND PAYMENTS

Listed below are the payment amounts due from the Pre-May 18th Fiduciary Cash for third quarter 2004 payments:

July Bond Payments due from pre May 18 th cash	\$516,836
August Bond Payments due from pre May 18 th cash	\$834,744
September Bond Payments due from pre May 18 th cash	\$207,306
TOTAL THIRD QUARTER 2004 BOND PAYMENTS	
Due from PRE-MAY 18TH CASH	\$1,558,886

The following is an analysis of July 1st Payments due:

Corporate Bond Payments due for July 1 st	\$1,249,494	
Municipal Bond Payments due for July 1 st	<u>\$887,176</u>	
Total Bond Payments due for July 1 st	\$2,136,670	
Money due from SunTrust Account (pre May 18, 2004) - Corporate July 1 st payment		\$516,836
Fiduciary Assets (pre May 18, 2004) Municipal Payment – Municipal July 1 st payment		\$13,956

Optional Redemption of the Jacksonville, Florida, 1996 Corporate Issue is due July 15th from proceeds \$7,724,465 received on June 9, 2004. These funds are held in the Fiduciary Cash Accounts.

Schedules of the July Bond Payments due for July 1st and July 15th are attached in a Micro-Soft Excel file.

Total Corporate and Municipal Bond Payments due for August 1st are \$2,653,834 with \$834,774 due from pre May 18th fiduciary cash. The total Corporate and Municipal Bond Payments due for September 1st are \$8,553,602 with \$207,306 due from pre May 18th fiduciary cash and \$5,784,781 due from mature fiduciary investments.

**PROJECTED CASH RECONCILIATION OF PRE-MAY 18TH FIDUCIARY CASH POSITION AFTER
THIRD QUARTER 2004 BOND PAYMENTS AND BOND & INTEREST CHECKS CLEAR**

As of June 15, 2004-Total Cash-pre May 18 th	\$1,730,045
THIRD QUARTER 2004 BOND PAYMENTS	(\$1,558,886)
<u>OUTSTANDING BOND PRINCIPAL & INTEREST CHECKS</u>	<u>(\$559,873)</u>
Projected Cash position after Bond Payments & Outstanding Checks	(\$388,714)

SENTINEL TRUST COMPANY
CASH RECONCILMENT
MAY 18, 2004

CASH RECONCILIATION BALANCES MAY 18, 2004

ACCUTrust System Cash Balance (5-18-04)	\$9,758,505
SunTrust Quick Books Cash Balance	\$2,357,576
SunTrust Trust Account – Statement Balance	\$2,472,928
SunTrust Trust Account – Checks Outstanding	\$559,873
Union Planters Quick Books Cash Balance	\$37,942
Union Planters Account – Statement Balance	\$41,601
Accounts Receivable – Quick Books	\$7,249,623
Accounts Receivables per Examiner Reconcilement	\$8,639,325
Overdrafts (ACCUTrust System 5-18-2004)	\$522,407

CASH RECONCILEMENT QUICK BOOKS May 18, 2004

Trust Company's Quick Books General Ledger Accts. Balance

First National Bank of Centerville	\$505
FNB Savings Account	\$22,298
Sentinel Corp Trust/Sun Trust	\$1,000
SunTrust Bank Account	\$2,357,576
<u>Union Planters Bank Account</u>	<u>\$37,942</u>
Total Cash Assets per Quickbooks G. L.	\$2,419,321
Less Cash Liabilities	
Fiduciary Corporate Account Holders Cash Position	\$10,085,733
Fiduciary Municipal Account Holders Cash Position	<u>\$301,188</u>
Subtotal Fiduciary Holders Cash Position	\$10,386,921
Accounts Payable	\$34,759
Fee Suspense Account	\$103,109
Sweep Earnings Accounts	\$1,839
<u>Trust Clearing Account</u>	<u>(\$495,089)</u>
Total Cash Liabilities per Quick Books G. L.	\$10,031,539
Net Cash Difference per QuickBooks G. L.	(\$7,612,218)

CASH RECONCILEMENT ACCUTRUST SYSTEM May 18, 2004

AccuTrust Ledger Accts.	Balance
AccuTrust Cash Balance	\$9,758,505
AccuTrust Total Overdrafts	<u>\$522,407</u>
AccuTrust Total Cash Balance	\$10,280,912
Cash Assets	
SunTrust Fiduciary Account Statement Balance	\$2,472,928
Union Planters Account Statement Balance	\$41,601
<u>Outstanding Checks (Cleared as 6-15-04)</u>	<u>(\$104,466)</u>
Net Cash Balance – AccuTrust	\$2,410,063
<u>Outstanding Checks (In-Vault)</u>	<u>(\$559,873)</u>
Total Cash Balance per Bank Statement reconcilement	\$1,850,190
Net Cash Difference per ACCUTrust System	(\$8,430,722)

AccuTrust Total Cash Balance	\$10,280,912	Quick Books Total Cash Balance	\$10,386,921
Net Cash	<u>\$2,410,063</u>	Net Cash	<u>\$2,410,063</u>
Net Cash Difference excluding checks in-vault	(\$7,870,849)	Net Cash Difference	(\$7,976,858)

The Cash shortage ranges from \$7,612,218 in Quick Books to \$8,427,122 in the AccuTrust fiduciary accounting system.

The Accounts Receivable listed in Quick Books is **\$7,249,623** with the current examiner reconciliation of Account Receivables at **\$8,639,325**. The difference is the inclusion of \$1,389,701.87 in the Corporate Account Receivables due from various corporate bond issues listed under the name of Network Mortgage Services which were reclassified from the Quick Book Account Receivables account on July 1, 2003. According to the SunTrust Fiduciary Account no money was received for these receivables. Thus, the amount is included in examiner's total receivable amount. Verification of the account receivable information continues in process. Listed below and on the following page are the individual receivable amounts per corporate and municipal issues.

INDENTURE TRUST (Corporate Issues) RECEIVABLES

Name of Bond Issue	Amt of AR per Corporate Bond Issue	
Air Craft Leasing & Funding#	150,982.70	Default
Cave Springs, GA+	89,101.03	Default
Dade City, FL@	184,780.38	Default
Dublin, GA+	81,740.68	Default
Ft Pierce, FL, Lyford@	309,846.61	Default
Hernando Co., FL@	750,647.02	Default
Highlands Co., FL+	113,625.37	Default
Jackson HEFB Series+	149,720.33	Default
Jacksonville Series+	278,778.64	Default
Jefferson Co., AR@	509,244.69	Default
Jose Eber Salons, Inc.@	133,701.96	Default
Lee Co., AL Industrial@	592,396.45	Default
Liberty Co., GA Midway@	100,070.29	Default
Newton Co., GA+	101,148.42	Default
Northstar Financial#	607,673.72	Default
Ray & Ross Transportation#	502,820.33	Default
Roane Co., TN+	113,692.34	Default
Rome-Floyd, GA+	79,680.19	Default
Rusk Co. HFC, TX@	81,961.28	Default
Sullivan Co., TN-Kingsport@	3,843.75	Default
Sumner Co., TN HE+	83,146.99	Default
Tarrant Co., TX@	880,554.67	Default
Tombs Co-Vidalia@	3,874.63	Default
Tri-Star Financial Corp#.	539,147.12	Default
Walton Co. FL+	321,242.44	Default
Washington Co., MS@	473,581.55	Default
SUB-TOTAL INDENTURE TRUST RECEIVABLES	\$7,237,003.58	
Network Mtg Services#	<u>1,389,701.87</u>	Default
TOTAL INDENTURE TRUST RECEIVABLES	\$8,626,705.45	

+ -Previous Default Bonds, now paying with a positive fiduciary cash balance

@ -Current Bonds in Default

-Previous Default Bonds, now closed with expectant recovery from estimated monies held at the Securities Exchange Commission (\$1,900,000-estimated with other large claims against these proceeds noted)

MUNICIPAL BOND RECEIVABLES

Name of Municipal Bond Issue	Amt of AR per Municipal Bond Issue
Atoka, Tipton, Co. TN	436.85
Benton County, TN	250.00
Camden, TN	2,425.00
City of Adamsville	1,739.52
City of Brighton	625.84
City of Hohenwald	676.08
City of Livingston	411.25
City of McKenzie	1,020.34
City of Millersville	355.12
City of Waynesboro	366.81
Crab Orchard Utility	653.80
Dekalb County, TN	500.00
Lawrence County, TN	38.97
New Market Utility	408.10
North Utility District	250.00
Town of Pikeville	500.00
Town of Spencer	250.00
Warren County Utility	1,461.44
Woodlawn Utility District	250.00
TOTAL MUNICIPAL RECEIVABLES	12,619.12
 TOTAL CORPORATE RECEIVABLES	 8,626,705.45
TOTAL MUNICIPAL RECEIVABLES	<u>12,619.12</u>
<i>TOTAL RECEIVABLES (June 15, 2004)</i>	<i>8,639,324.57</i>

Fiduciary Cash Position (Continued)**81400****CASH RECONCILIATION BALANCES****DECEMBER 31, 2003**

CPA Monthly SunTrust Bank Reconcilement Bal.	\$10,897,183
ACCUTrust System Cash Balance	\$14,197,093
Trust Department Quick Books Cash Balance	\$14,197,095
SunTrust Trust Account – Statement Balance	\$11,438,302
Overdrafts 12-31-03	\$2,632,540

RECONCILEMENT – December 31, 2003

Trust Company General Ledger Accounts	Balance
First National Bank of Centerville	\$506
FNB Savings Account	\$22,242
SunTrust Bank Account	\$11,438,302
Union Planters Bank Account	\$13,558
Due From Others/Receivable	\$3,851,923
Money Market Mutual Funds	\$107,135
Total Cash Assets per G. L.	\$15,433,666
Less Cash Liabilities	
Accounts Payable	(\$182,139)
Sweep Earnings Accounts	(\$280)
Trust Clearing Account	(\$1,054,152)
Total Cash Liabilities per G. L.	(\$1,236,571)
Net Cash Balance per QuickBooks	\$14,197,095

RECONCILEMENT OF CASH SHORTAGE

Quick Books/AccuTrust Systems Cash Balance	\$14,197,095
+Overdrafts	\$2,632,540
Total Cash Balance per Trust Systems	\$16,829,635
SunTrust Cash Reconcilement Balance*	(\$10,897,183)
First National Bank of Centerville	(\$506)
FNB Savings Account	(\$22,242)
Union Planters Bank Balance*	(\$13,558)
Money Market Mutual Funds Balance*	(\$107,135)
Total Cash	\$11,040,624

Cash Shortage - December 31, 2003 – (\$5,789,011)

QUICK-BOOKS FIDUCIARY BALANCE SHEET - MAY 18, 2004

FIDUCIARY ASSETS

CASH AND DUE FROM ACCOUNTS

First National Bank of Centerville	\$505
FNB Savings Account	22,298
SunTrust Fiduciary Account	1,000
SunTrust Fiduciary Operating Account	2,357,576
Union Planters Fiduciary Account	<u>37,942</u>
Total Cash and Due From Accounts	\$2,419,321
ACCOUNTS RECEIVABLE	7,249,623
COMMON STOCK	133
MONEY MARKET MUTUAL FUNDS	108,935
MUTUAL FUNDS-TAX EXEMPTS	6,802
STATE & LOCAL GOVERNMENT OBLIGATIONS	25,000
U. S. GVT BILLS & DISCOUNTS NOTES	10,604,764
U. S. GVT NOTES & BONDS	7,720,189
U. S. SLGs/Bureau of Public Debt	<u>17,677,581</u>
TOTAL FIDUCIARY ASSETS	45,812,348

FIDUCIARY LIABILITIES

ACCOUNTS PAYABLE	\$34,759
FEE SUSPENSE ACCOUNT	103,109
SWEEP EARNINGS ACCOUNT	1,839
TRUST CLEARING ACCOUNT	(495,089)
TOTAL AGENCIES, TRUSTS, & ESTATES	191,898
TOTAL INDENTURE TRUSTS	10,085,733
TOTAL REGISTRAR/PAYING AGENCIES	<u>35,890,099</u>
TOTAL FIDUCIARY LIABILITIES	\$45,812,348

Net Cash Difference per Quick Books System **\$7,612,218**

Quick Books Total Cash Balance	\$10,386,921
Net Cash	<u>\$2,410,063</u>
Net Cash Difference per actual cash position	\$7,976,858

Fiduciary Assets & Liabilities (Continued)

81400

ACCUTRUST FIDUCIARY BALANCE SHEET MAY 18, 2004

FIDUCIARY ASSETS

CASH*	\$9,758,505
DUE FROM BANKS	22,186
MONEY MARKET ACCTS	108,015
MUTUAL FUNDS	6,802
U. S. TREASURY BILLS/DISC.	10,604,766
U. S. TREASURY BONDS/NOTES	7,720,189
U. S. TREASURY SLGs	17,677,581
MUNICIPAL BONDS	25,000
COMMON STOCKS	133
<u>PREFERRED STOCK</u>	<u>1</u>
TOTAL FIDUCIARY ASSETS	\$45,923,178

FIDUCIARY LIABILITIES

ESTATES (1 account)	\$26,308
PERSONAL TRUSTS (2 accounts)	\$165,545
INDENTURE TRUSTS-Corporate (53 issues)	\$9,703,077
<u>MUNICIPAL AGENCIES (99 issues)</u>	<u>\$36,028,248</u>
TOTAL FIDUCIARY LIABILITIES	\$45,923,178

***Net Cash Difference per ACCUTrust System \$8,427,122**

ACCUTrust Total Cash Balance per account data:	\$10,280,912
Net Cash	<u>\$2,410,063</u>
Net Cash Difference per actual cash position	<u>\$7,870,849</u>

Comparative Statement of Financial Condition**81400**

SENTINEL TRUST COMPANYMAY 18, 2004MAY 18, 2004

Adjusted

Before Adjustment

ASSETS

Cash and Due from depository institutions accounts:	138,335	138,335
Accounts Receivables	200,253	200,253
Other Current Assets	51,622	51,622
Premises and fixed assets	867,951	867,951
Other Assets	<u>131,521</u>	<u>131,521</u>
TOTAL CORPORATE ASSETS	1,389,682	1,389,682

LIABILITIES

Other Liabilities	2,909	2,909
Accounts Payable due to Fiduciary Assets for Cash Deficiency-Quick Books	<u>7,612,218</u>	<u>0</u>
Total Liabilities	7,615,127	2,909

EQUITY CAPITAL

Capital Stock	782,977	782,977
Retained Earnings	801,713	801,713
Net Income (Loss)	(197,917)	<u>(197,917)</u>
Loss from Fiduciary Cash Deficiency	<u>(7,612,218)</u>	
Total Equity Capital	(6,225,445)	1,386,773

TOTAL LIABILITIES AND EQUITY CAPITAL	1,389,682	1,389,682
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Based on the adjusted May 18, 2004 financial statement, Sentinel Trust Company is insolvent in an amount of at least \$6,225,445. The insolvency has occurred due to the cash deficiency reflected in the fiduciary asset position. The cash deficiency is reflected as an accounts payable due to the failure of Sentinel's former management not performing their fiduciary obligation to safeguard the fiduciary assets.

Office Locations-Fixed Assets

Main Office – Sentinel Trust Company
29 West Street
Hohenwald, TN

Trust Office – Sentinel Trust Company
8122 Sawyer Brown Road
Suite 201
Nashville, Tennessee 37205

Income Statement**81400**

SENTINEL TRUST COMPANY

MAY 18, 2004

REVENUES

Corporate Trusts

Acceptance fees	\$4,600
Administration fees	226,263
Default Administration	<u>181,367</u>
Total Corporate Trust Fees	\$412,230
Fiscal agency services	13,143
Information Systems	1,844
Municipal paying agencies	33,036
Other Income	6,887
Reimbursed Expenses	<u>12,151</u>
Total Revenues	\$479,291

EXPENSES

Advertising & Public Relations	1,933
Audit & accounting fees	35,904
Client advances/expenses	15,018
Communications	37,033
Contributions	500
Data Processing	18,141
Depreciation	39,016
Director's fees	26,368
Dues and Subscriptions	6,007
Insurance	11,146
Miscellaneous Expense	5,915
Occupancy	14,982
Office Supplies	7,089
Postage and Delivery	3,514
Printing and Reproduction	4,031
Professional Fees	9,615
Employee insurance/benefits	41,140
Payroll Expenses	287,929
Training	<u>141</u>
Total Salaries and benefits	329,210
Taxes	5,951
Travel & mileage	11,992
Uncollectible/charge-off	100,522
Utilities	6,990
Total Expenses	<u>690,877</u>
NET ORDINARY INCOME	(211,586)
Income Taxes (Income Credit)	<u>(13,669)</u>
Net Income (Loss)	(197,917)

At present there are seventeen bond issues which are in default. None of these bond issues are municipal general obligation issues, rather they are all revenue/industrial development bond issues. Numerous of the defaulted bond issues are at various stages of state court receivership proceedings and/or bankruptcy proceedings. Dependent upon the particular situation, the likelihood of recovering costs advanced by previous management from the SunTrust fiduciary account to address the defaulted bond issues ranges significantly. The following table summarizes the defaulted bond issues:

Name of Bond Issue	Status
1) Washington County, MS (nursing home)	property sold recently, state-court receivership is in process of closing down; @\$200,000 to be paid to Sentinel; amount previously advanced to address default well exceeds that @\$200,000.
2) Jefferson County, AK (nursing home)	property under sale contract for \$1.1 million, subject to state receivership court approval proceedings and closing; @\$500,000 had been previously advanced from SunTrust fiduciary account to address the expenses attendant to the default.
3) Lee County, AL (industrial development bond on peanut butter factory)	@\$970,000 held in state receivership court escrow; third party claims are being addressed; @\$590,000 had been previously advanced from SunTrust fiduciary account to address expenses attendant to the default; escrowed amount, minus third party claims, will still exceed the funds so advanced.
4) Maplecrest, Nashville (low-income housing)	property is under sale contract for \$2.1 million subject to closing; no court proceedings have been filed; expenses advanced to address default have been minimal.
5) Thompson Place, Nashville (nursing home)	seeking contract to sell property, no court proceedings have been filed; expenses advanced to address default have been minimal.
6) Sullivan County, TN (assisted living facility)	forbearance agreement still in effect; no court proceedings have been filed; potential of Sentinel exiting situation by having substitute trustee replace it; expenses advanced to address default have been minimal.

- | | |
|--|---|
| 7) Liberty County, GA
(nursing home) | forbearance agreement still in effect; no court proceedings have been filed; potential of Sentinel exiting situation by having substitute trustee replace it; from account information available, @\$100,000 is due the SunTrust fiduciary account for funds previously advanced to address default. |
| 8) Tombs County, GA | forbearance agreement still in effect; no court proceedings have been filed; potential of Sentinel exiting situation by having substitute trustee replace it; from account information available, expenses advanced to address default have been minimal. |
| 9) Jose Eber Salons, Inc.
(refinancing of hair salon operations) | bondholders in unsecured position; recovery unlikely; from accounting information available, @\$120,000 is due the SunTrust fiduciary account for funds previously advanced to address default. |
| 10) City of Charlotte, N.C. | recent bankruptcy filed; bondholders have first lien position; awaiting debtor's reorganization plan due in late August 2004; property appraised at @\$3 million; based on accounting information available, expenses advanced, to date, to address default have been minimal. |
| 11) Hernado County, FL/
12) City of Ft. Pierce, FL
(nursing homes) | the properties, which provide security for each bond issue, are consolidated in one bankruptcy proceeding of owner; bondholders have first lien; forbearance plan still in effect; the two properties together appraise for @\$4.9 million; based on accounting information available, amounts advanced from the SunTrust fiduciary account to address the two defaults exceed \$1 million. |
| 13) Dade County, FL
(nursing home) | property sold last year leaving substantial deficit regarding amounts owed to bondholders; pending litigation addresses efforts to collect on other assets thought to be owned by owner of the now-defunct Dade County facility; based on accounting information available, amount advanced from the SunTrust fiduciary account regarding the default is @\$185,000. |
| 14) Tyler, TX
(nursing home) | property sold May 2003; \$700,000 held back from bondholders distribution to fund litigation on the property for breach of the agreement to purchase; third party claims exist regarding the fees of a previous state court receiver and other vendors. |

- | | |
|--|---|
| 15) Tarrant County, TX
(nursing home) | \$2.3 million sale, approved bankruptcy court, is pending; huge claim (i.e. @\$900,000) by previous state court receiver exists as well as claims by vendors; based on accounting information available, @\$880,000 advanced from the SunTrust fiduciary account was spent in addressing the default of the bond issue. |
| 16) City of Pearsall, TX
(nursing home) | sale of state court property has occurred; claims are pending by former receiver and third party vendors. |
| 17) Rush County, TX
(nursing home) | sale of property has occurred, claims are pending by former state court receiver and third party vendors; account records available indicate that @\$70,000 was advanced from the SunTrust fiduciary account in regard to this default. |

Recoveries as to these defaulted bond issues will vary greatly in timing and in amount. In some instances (e.g. Jose Eber Salons), no recovery is anticipated. In other instances (e.g. City of Charlotte), recovery will occur, but the timing and expenses in gaining those recoveries will vary greatly. In yet other instances (e.g. Washington County), recovery will occur and will occur soon, but not in an amount sufficient to address the funds advanced from the SunTrust fiduciary account. Finally in other instances (e.g. Maplecrest, Nashville) recovery will occur, but except for minimal transaction expenses, the recoveries will be paid to bondholders. In aggregating the potential recovery from these defaulted issues, it is not expected that the gross amount that would be available for payment to the SunTrust fiduciary account (e.g., to address the previous amounts advanced), would be over @\$3.4 million. Furthermore, that amount does not account for the necessary expenses needed to realize those amounts (expenses that could aggregate into the hundreds of thousands of dollars) nor does it take into account that significant amounts might not be realized for quite some time in the future.

The following is information concerning pending litigation for which Sentinel Trust Company is named as defendant. These cases involve other litigation where, claims are being pursued as against Sentinel involving current or previous defaulted bond issues.

- 1.) The GMS Group, LLC, Ficus Investments, LLC, vs. Sentinel Trust Company vs. Gulf Insurance Company, United States District Court for the Middle District of Tennessee, Case #3:99-0091 (Ray & Ross Transport Bond-Closed Default Issue):
- 2.) Ficus Investments, LLC, National Commerce Bancorporation vs. Sentinel Trust Company, et al, Chancery Court Davidson County, Tennessee Case #99-3772-I (Ray & Ross Transport Bond-Closed Default Issue). Both cases relate to Ray & Ross Transport bond issue that defaulted. Multi-million dollar claim is pursued. Allegations against for Sentinel management are negligence and breach of fiduciary duty regarding trustee position on Ray & Ross Transport issue. In the federal court action, former Sentinel management pursued Gulf Insurance Company for failure to honor a performance bond it issued in conjunction with the Ray & Ross Transport bond issue.
- 3.) Tri Health Management, LLC Vs. Sentinel Trust Company, United States Bankruptcy Court for the Eastern District of Texas, Beaumont District. Tri-Health is asking for receiver fees of \$900,000 from the sale of Doctor's Hospital. Sentinel objected and filed a counter claim. Bankruptcy Proceedings Case #03-11710 and Adversary Proceedings Case #04-01014 (Tarrant, TX bond-see additional details above). In actions initiated by Sentinel Trust, Tri-Health Management, LLC and vendors such as Therapy Management Solutions and East Texas Therapy Solutions will file or have filed intervening complaints against Sentinel claiming payment for post-receivership services. See e.g. Sentinel Trust Company vs. Harvest Communications, et al (U.S.D. ct) (S.D. Tex) #H-00-2179 and Sentinel Trust Company vs Park Place Ltd., (Smith County, Tex) (Dist.Ct.) #99-2572-A. In these interventions, claims of several hundred thousands of dollars are being maintained against Sentinel for failure to pay for services rendered.

Sentinel's former management has reported that all previously reported cases have been won or dismissed by or for Sentinel and are no longer pending litigation.

<u>Number</u>	<u>Bond #</u>	<u>AccuTrust</u>
		<u>Balance as</u>
		<u>of 5-18-2004</u>

CORPORATE ISSUES									
1	21	28,767.18	Cave Springs 1994						
			28,767.18						
2	53	75,543.50 150,998.94	Dade 96 Bond Fund Dade 96 DSR Fund		7/1/04	25,000.00	7/1/04	60,987.50	85,987.50
			226,542.44						
				T.R./P/A	7/1/04				28,767.18 from SunTrust Pooled Account, balance, 57,220.32 due from debtor
3	12	34,567.16	Dublin		1/1/05		7/1/04	225,681.25	225,681.25
				T.R./P/A					75,543.50 from SunTrust Pooled Account, balance, 150,137.75 due from debtor
4	167	170,435.87 214,617.82 17,124.07	Jackson OH Bond Fund Jackson OH DSR Fund Jackson OH Rpr		7/1/04	60,000.00	7/1/04	173,000.00	233,000.00
			402,177.78						
				T.R./P/A					170,435.87 from SunTrust Pooled Account, balance, 62,564.13 due from debtor
5	155		FL Pierce, FL - Default*						
			-303,116.06						
				T.R./P/A		see below (1)			DEFAULT
6	214	4,340.01	Lowndes A Lowndes B		1/1/08 1/1/07		7/1/04	41,093.75 59,250.00	100,343.75
			4,340.01						
									4,340.01 from SunTrust Pooled Account, balance, from debtor \$96,003.74
7	88	82,105.43 55,031.45 3,770.23 23,597.52	Nashville Maplecrest - Default- Bond Fd Nashville Maplecrest - DSR Fd. Nashville Maplecrest - R & R Fd. Nashville Maplecrest - Tax Fd - Default		7/1/04	45,000.00	7/1/04	264,618.76	309,618.76
			164,504.63						
				T.R./P/A					DEFAULT

<u>Number</u>	<u>Bond #</u>	<u>AccuTrust</u>	<u>Balance as</u>	<u>of 5-18-2004</u>
<u>of Issues</u>				

CORPORATE ISSUES (continued)								
8	106	61,048.48 66,649.99 1,883.59 1,977.67 13,249.68 144,809.41	Nashville Thompson Place Bond Fd. Default Nashville Thompson Place DSR Fd. Default Nashville Thompson Place Project Fd. Default Nashville Thompson Place Replacement Fd. Nashville Thompson Place Tax Rsv Fd T,R,P/A	7/1/04	0.00	7/1/04	71,986.25 71,986.25	DEFAULT
9	84	29,323.41 106,127.32 2,147.59 137,598.32	Redford Z.-Technology - Watch List - Bond Fd Redford Z.-Technology-DSR Fund Redford Z.-Technology R& R Fund T,R,P/A	7/1/04	120,000.00	7/1/04	127,106.25 247,106.25	29,323.41 from SunTrust Pooled Account, balance, 217,782.84 from debtor
10	90	28,500.53 228,335.07 256,835.60	Sullivan County - Forbearance - Bond Fd Sullivan County TAS T,R,P/A	7/1/03	see below(1)	7/1/04	154,740.65 154,740.65	154,740.65 from SunTrust Pooled Account
11	86	19,117.82 19,117.82	Toombs Co, Vidalia T,R,P/A	6/15/04	see below (1)		99,359.38 99,359.38	19,117.82 from SunTrust Pooled Account balance, \$80,241.56 from debtor
		1,419,280.33	TOTAL CORPORATE Funds reported in SunTrust Pooled Account				1,831,090.79	DUE TO BE PAID
							-308,618.76	#88 Nash Maplecrest
							-71,986.25	#106 Nash Thompson Place
							1,249,493.78	Total Adj. Amt Due to be Paid July 1, 2004

(1) Information from Paul Williams regarding these issues.

(1) Information from Paul Williams regarding these issues.

*Overdraft in Ft. Pierce not included in 5-18-2004 SunTrust total.

BOND ISSUES DUE FOR A JULY 1 PRINCIPAL AND/OR INTEREST PAYMENT (continued)

Number of Issues	Bond #	Accrual Trust Balance as of 5-18-2004	Capacity	Next Principal Due	Amount	Next Interest Due	Amount	Total Due	Source of funding
MUNICIPAL ISSUES:									
1	8	-1,739.52	Adamsville 94	R,P/A	1/1/05	7/1/04	11,292.50	11,292.50	municipality
2	9	0.00	Adamsville 94	R,P/A	1/1/05	7/1/04	2,835.00	2,835.00	municipality
3	166	0.00	Ashland City 99	R,P/A	7/1/04	7/1/04	43,819.38	118,819.38	municipality
4	101	0.00	Benton County 98 Electric	R,P/A	1/1/05	7/1/04	25,102.50	25,102.50	municipality
5	177	1,262.50	Catoosa 00	R,P/A	7/1/04	7/1/04	46,022.50	101,022.50	municipality
6	98	174.54	Colquitt 97*	R,P/A	1/1/05	7/1/04	13,956.25	13,956.25	\$114,885 Treas Bill mat 7-1-2004(2)
7	207	-411.25	Livingston 02	R,P/A	7/1/04	7/1/04	68,439.38	178,439.39	municipality
8	204	1.00	Selmer 02	R,P/A	7/1/04	7/1/04	38,522.50	373,522.50	municipality
9	190	-1,461.44	Warren County 93	R,P/A	1/1/05	7/1/04	48,045.00	48,045.00	municipality
10	157	-250.00	Woodlawn 99	R,P/A	1/1/05	7/1/04	14,141.25	14,141.25	municipality
		-2,424.17	TOTAL				575,000.00	312,176.26	
		1,437.04	Reported in SunTrust Pooled Fund on 5-18-2004 for Municipal Issues.						
		13,956.25	Funds from maturity of fiduciary assets to pay Municipal debt service due 7-1-2004, (2)						
		873,220.02	Balance Due from Debtor to pay 7-1-2004 debt service.						

*These issues do not have a named trustee.

CALLS

NONE KNOWN AT THIS TIME.

OPTIONAL CORPORATE REDEMPTION

1	64	251.63	Jacksonville, FL Series 1996 Bond Fund	7/15/04	7,600,000	124,465.10	7,724,465.10
		34,230.05	Jacksonville, FL Series 1996 Rpr & Rpl Fund				
		34,481.68	Reported in SunTrust Account on 5-18-2004				
			Received \$7,724,465.10 on 6-9-2004. Continuing to hold funds in SunTrust Pooled Acct# 4049233.				

CODE: T = TRUSTEE
R = REGISTRAR
P/A = PAYING AGENT
E/A = ESCROW AGENT